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Supreme Court, U.S.
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IN THE
Supreme Court of the United States
OCTOBER TERM, 1994

MDK, INCORPORATED,
Petitioner,

v.

MIKE'S TRAIN HOUSE, and LIONEL TRAINS, INC.,
Respondents.

Petition for Writ of Certiorari to the United States Court of Appeals for the Fourth Circuit

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PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Is a discovery order which compels the production of trade secrets and other confidential, commercial information a final order and, therefore, appealable pursuant to 28 U.S.C. § 1291 (1982), or, if not, is it subject to a judicially created exception?

PARTIES TO THE PROCEEDING

Petitioner MDK, Inc. is a North Carolina corporation. MDK is not a party to the underlying action which is currently pending in the United States District Court for the Eastern District of Michigan. Pursuant to this Court's Rule 29.1, petitioner notes that it has one (1) directly owned subsidiary, K-Line Electric Trains, Inc.

Respondent Mike's Train House, Inc. is a Maryland corporation and is the Plaintiff in the underlying action.

Respondent Lionel Trains, Inc. is a Michigan corporation and is the Defendant in the underlying action.

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PETITION FOR WRIT OF CERTIORARI

Petitioner MDK, Inc. ("MDK") prays that a Writ of Certiorari issue to review the judgment of the United States Court of Appeals for the Fourth Circuit entered in the above-entitled case on June 22, 1994. The judgment entered by the Fourth Circuit is in direct conflict with decisions issued by this Court, seven other circuit courts and its own previous decisions on an important question of federal law.

OPINIONS BELOW

The initial unreported decision of the United States District Court for the Middle District of North Carolina in this matter was issued on July 28, 1993, by the Honorable P. Trevor Sharp, U.S. Magistrate Judge, and is reprinted in the Appendix at p. 11a. On August 10, 1993, pursuant to Rule 72 of the Federal Rules of Civil Procedure, MDK filed objections to Magistrate Sharp's Order and requested a rehearing. On August 17, 1993,

the Honorable Richard C. Erwin issued an order (reprinted in the Appendix at p. 15a) confirming Magistrate Sharp's Order. (Magistrate Sharp's and Judge Erwin's Orders are collectively referred to as the "District Court Order.")

On November 17, 1993, the Fourth Circuit issued an unpublished decision (reprinted in the Appendix at p. 16a) denying Plaintiff-Respondent Mike's Train House Inc.'s Motion to Quash or Dismiss the Appeal. On June 22, 1994, the Fourth Circuit issued a published opinion (reprinted in the Appendix at p. 1a and reported at 27 F.3d 116) dismissing MDK's appeal (hereinafter referred to as *MDK v. Mike's*).

JURISDICTION

This Court has jurisdiction to review the judgment of the Fourth Circuit in *MDK v. Mike's* entered June 22, 1994, pursuant to 28 U.S.C. § 1254(1) (1988). MDK filed a Suggestion for Rehearing In Banc on July 12, 1994, which was denied on July 14, 1994.[1]

STATUTE INVOLVED

Title 28 of the United States Code, Section 1291, provides: "the Court of Appeals (other than the United States Court of Appeals for the Federal Circuit) shall have jurisdiction of appeals from all final decisions of the district courts of the United States, United States District Court for the District of the Canal Zone, the District

[1] MDK filed a Suggestion for Rehearing In Banc on July 12, 1994 along with a Motion for Leave to File the Suggestion for Rehearing In Banc One Day Out of Time. At the direction of the Clerk of Court for the Fourth Circuit, MDK resubmitted the Motion for Leave to File the Suggestion for Rehearing, asking for an extension of time of six days. The discrepancy in time between the Motions was the result of MDK's counsel calculating the due date of the suggestion with three (3) additional days for mail pursuant to F.R.A.P. 26(c). The Motion was denied on July 14, 1994.

Court of Guam, and the District Court of the Virgin Islands, except where a direct review may be had in the Supreme Court. The jurisdiction of the United States Court of Appeals for the Federal Circuit shall be limited to the jurisdiction described in Sections 1292(c) and (d) and 1295 of this title." 28 U.S.C. § 1291 (1982).

STATEMENT OF THE CASE

Petitioner MDK, Inc. ("MDK") is a small, privately-held corporation located in Hillsborough, North Carolina. MDK manufactures and sells model trains and train products, including O-gauge trains and products. MDK was established in 1979 by Maury D. Klein. Mr. Klein is still the sole shareholder and president of MDK.

Plaintiff-Respondent Mike's Train House, Inc. ("Mike's") and Defendant-Respondent Lionel Trains, Inc. ("Lionel") are also manufacturers and sellers of O-gauge model trains and train products and are direct competitors of MDK in the O-gauge market. (Appendix, p. 2a.)

This matter arises out of litigation currently pending in the District Court for the Eastern District of Michigan (the "Michigan Litigation"). (Appendix, p. 2a.) Mike's brought the action in the Michigan Litigation against Lionel alleging, *inter alia*, violations of § 2 of the Sherman Act, 15 U.S.C. § 2 (1985). Mike's alleges that Lionel has monopolized the market for O-gauge model trains and train products. (Appendix, p. 2a.) Jurisdiction in the underlying action is based on 28 U.S.C. § 1331, 1332, 1337.

MDK is not a party to the Michigan Litigation, but was served with a subpoena *duces tecum* from Mike's [2] ("Mike's Subpoena") seeking the following information:

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[2] Mike's initially served two subpoenas on MDK. The first was incorrectly issued from the Eastern District of Michigan, Southern Division, to "K-Line Manufacturing Company," which is not a corporate entity. After MDK's counsel notified Mike's counsel of

1. The complaint and all deposition transcripts and exhibits thereto in the litigation *MDK v. General Mills, et al.*, C-79-611 D (M.D. North Carolina.)

2. Documents setting forth MDK (and K-Line's) yearly sales of O gauge train products (including O-27) for each year 1986 through and including the present.

3. The revenue received by MDK and/or K-Line on a yearly basis and on a product-by-product basis for selling each MDK or K Line product that is in the following classes or categories of model trains or train equipment for years 1986-1992:

A. Steam engines

B. Diesel engines

C. Passenger cars

D. Freight cars

E. Train sets

F. Train tracks (straight and curved)

4. The invoice cost of each product in paragraph (3) above.

5. All MDK and K-Line price lists for years 1986-92.

6. Product brochures for each product in ¶ 3 above.

MDK is a resident of the Middle District and, therefore, Mike's Subpoena was issued from the District Court

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the defects in the initial subpoena, Mike's counsel reissued the subpoena on July 6, 1993, from the Middle District of North Carolina to MDK. Mike's reissued the subpoena a third time pursuant to the District Court Orders. Lionel also issued a subpoena *duces tecum* to MDK. However, as presently governed by the District Court Orders, MDK has no documents coming within Lionel's subpoena. Mike's subpoena is the only subpoena currently outstanding.

for the Middle District of North Carolina, Greensboro Division, pursuant to Rule 45 F.R. Civ. P. MDK moved to quash Mike's Subpoena and for a protective order on the grounds that the information sought was MDK's trade secrets and other highly confidential, commercial information. (Appendix, p. 2a-3a.)

It is uncontested that: (1) the subpoenaed information constitutes trade secrets [3]; (2) Mike's and Lionel are direct competitors of MDK in the O-gauge model train market (Appendix, p. 2a); and (3) MDK will be irreparably harmed if its confidential commercial information and trade secrets are disclosed to Mike's, Lionel or the general public (Appendix at p. 13a).

Mike's and Lionel are already embroiled in litigation alleging monopolization and attempts to monopolize and other Sherman Act violations by Lionel. Mike's now seek to discover confidential business information from a third competitor, MDK. The information requested includes very specific information about MDK's position in the market in which it competes with Mike's and Lionel: MDK's yearly sales of O-gauge trains and products, revenue received by MDK on a yearly basis and on a product-by-product basis, invoice costs, price lists and product brochures for cash product.[4] (Appendix, p. 19a.)

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[3] The District Court found as a fact that the information sought by Mike's Subpoena is "MDK's confidential information." (Appendix, p. 13a.) Mike's acknowledged to the District Court that the information it seeks from MDK is "understandably considered very sensitive." Lionel not only acknowledged this fact, it sought similar protection from discovery by Mike's of precisely the same information in the Michigan Litigation, arguing that disclosure of the information would give Mike's an unfair advantage and would be harmful to Lionel's business.

[4] With this information, Mike's and Lionel can determine MDK's margins, profits, relative product sales and marketing strategies. The subpoenaed information would disclose MDK's suppliers and amounts paid to those suppliers which, when coupled with the other information requested in Mike's Subpoena, would allow Mike's and Lionel to gain a competitive advantage in negotiating with MDK's

As a small, privately-held corporation, MDK seeks to keep this information confidential and has a compelling need to do so. If it does not, its direct competitors, including Mike's and especially Lionel, who is alleged to control approximately eighty-five percent of this market, will gain a competitive advantage from the intimate knowledge of MDK's market and financial position which could potentially be used to force MDK out of the market and out of business.

Despite this uncontested evidence weighing against disclosure, and the failure of Mike's and Lionel to make the showing required by Rule 45 of the Federal Rules of Civil Procedure, Magistrate Sharp entered an order directing MDK to comply, in part, with Mike's Subpoena, subject to a confidentiality order.

The Magistrate attempted to mitigate the potential harm to MDK in producing of its confidential, commercial information and trade secrets by requiring a strict confidentiality order. (Appendix, p. 13a.) However, the evidence before the District Court showed that even the strictest of confidentiality orders would not protect MDK. Because MDK is not a party to the Michigan Litigation it will have no control over how its information is used or presented in that litigation. MDK, as a non-party, will have no standing to object if the information is presented in a manner which harms MDK.[5]

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suppliers, distributors and customers, again resulting in a significant competitive advantage.

[5] MDK cannot control who attends the trial in Michigan. Employees and owners of Mike's and Lionel will certainly attend and it is reasonable to assume that MDK's other direct competitors in the O-gauge market will attend as well. The Magistrate recognized the necessity of "prevent[ing] disclosure of MDK's confidential information to employees, of either Lionel or Mike's Train House or the general public." (Appendix, p. 13a.) Nevertheless, a Magistrate in the Middle District of North Carolina cannot dictate by way of a confidentiality order who can be present at the trial in the Michigan Litigation. Once MDK's confidential, commercial information

On August 10, 1993, pursuant to Rule 73 of the Federal Rules of Civil Procedure, MDK filed objections to the Magistrate's Order and requested a rehearing. On August 17, 1993, the Honorable Richard C. Erwin issued an order affirming the Magistrate's Order. (Appendix, p. 15a.) On September 7, 1993, MDK filed a Notice of Appeal and Motion for Stay from the District Court Order and subsequently filed a Motion for Stay in the Fourth Circuit. Both were denied.

On October 18, 1993, Mike's filed a Motion to Quash or Dismiss MDK's Appeal to the Fourth Circuit. On November 17, 1993, the Fourth Circuit issued an order denying Mike's Motion to Quash or Dismiss the Appeal and allowed the appeal to proceed on its merits. (Appendix, p. 16a.) No petition for rehearing was ever filed by Mike's. Nevertheless, in its Appellate Brief, filed on December 22, 1993, Mike's renewed its motion to dismiss the appeal.[6]

Notwithstanding the fact that the Fourth Circuit had previously denied the Motion to Dismiss, it dismissed the appeal in its decision in *MDK v. Mike's* issued June 22, 1994. The Fourth Circuit stated that "the question before us is whether this court has jurisdiction to review a district court decision compelling a company to submit to

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and trade secrets are disclosed, the information will no longer be a trade secret and the damage to MDK's business will be done, regardless of any confidentiality order which might be entered by the Magistrate.

Moreover, this danger of disclosure, despite a strict confidentiality order, was further supported by evidence of inadvertent disclosures of confidential information which have already occurred in the Michigan Litigation itself.

[6] Such a motion made within the context of an Appellate Brief does not comport with the Federal Rules of Appellate Procedure, the Local Rules or the Internal Operating Procedures of the Fourth Circuit. The renewed motion was not properly before the Fourth Circuit and should not have been considered.

discovery where it is not a party to the underlying litigation. Because we find that this non-final discovery order does not fall under the collateral order exception of *Cohen v. Beneficial Industrial Loan Corp.*, 337 U.S. 541 (1949), we dismiss the appeal for want of jurisdiction." (Appendix, p. 2a.) However, appealability of the District Court Order was not the issue before the court on appeal.[7]

REASONS FOR GRANTING THE WRIT

The standard for "finality" for purposes of determining the appealability of a discovery order is a fundamental and important question of federal law. In *MDK v. Mike's*, the Fourth Circuit has applied a standard that sharply conflicts with (1) the standard applied by this Court, (2) the standard applied in the other circuits, and (3) the standard previously applied in the Fourth Circuit. As

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[7] The Statement of Issues Presented for Review as set forth in MDK's Appellate Brief to the Fourth Circuit is as follows:

> I. Did the U.S. Magistrate Judge P. Trevor Sharp commit reversible error by entering the order against MDK, Inc. on July 28, 1993, in that the order is contrary to law, includes findings not supported by the record, compels the production by MDK of trade secrets and highly sensitive, proprietary and commercial information, and constitutes an abuse of discretion by Magistrate Judge Sharp?
>
> II. Did the United States District Court for the Middle District of North Carolina, Greensboro Division, commit reversible error in its order of August 17, 1993, affirming the Order entered by U.S. Magistrate Judge P. Trevor Sharp, dated July 28, 1993, in that the Magistrate's Order is contrary to law, includes findings not supported by the record, compels the production of documents by MDK, Inc. which are trade secrets and highly sensitive proprietary and commercial information, and constitutes an abuse of discretion by the District Court?

The Statement of Issues contained in Mike's Appellate Brief to the Fourth Circuit is as follows:

> 1. Did the District Court abuse its discretion or commit an error of law in enforcing Mike's Train House's subpoena *duces tecum* served upon MDK, Inc.?

with other federal statutes that have raised similar issues and engendered conflicting interpretations, this important federal question merits resolution by this Court.

I. THE DECISION OF THE FOURTH CIRCUIT IS IN CONFLICT WITH THE STANDARD ESTABLISHED BY THIS COURT

In 1906, this Court in *Alexander v. United States,* 201 U.S. 117 (1906), held that an order compelling testimony and the production of documents was not appealable as a final decision absent a finding of contempt for failure to obey the discovery order. This is commonly referred to as the "acid test." The early rule as set forth in *Alexander* has, however, evolved over time and this Court and the federal circuit courts now recognize specific exceptions to the *Alexander* rule.

In *Cohen v. Beneficial Industrial Loan Corp.,* 337 U.S. 541 (1949), this Court reexamined its holding in *Alexander* and held that "an order which conclusively determines an important right separate from the main controversy is immediately appealable if it is effectively unreviewable in an appeal from the final judgment." In *Cohen* this Court recognized that in certain instances, if review of a decision is delayed, "it will be too late effectively to review the present order and the rights . . . will have been lost, probably irreparably." *Cohen,* at 545. In order to alleviate the hardships resulting from the inflexibility of the *Alexander* rule, *Cohen* set forth three requirements for determining finality which must be met in order for a decision to be appealable.[8]

The *Cohen* requirements for finality, known as the "collateral order doctrine," have been followed by this

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[8] (1) The right asserted must be separable from and collateral to the rights asserted in the main action;

(2) The decision must be too important to be denied review; and

(3) The decision must be too independent of the main action to require that appellate consideration be deferred until the whole case is adjudicated. *Id.*

Court in many subsequent decisions. In *Gillespie v. United States Steel Corp.*, 379 U.S. 148 (1964), this Court stated that "it is impossible to devise a formula to resolve all marginal cases coming within what might be well called the 'twilight zone' of finality. Because of this difficulty, the Court has held that the requirement of finality is to be given a 'practical rather than technical consideration.' " *Id.* (citing *Cohen* at 546). In *Gillespie*, this Court pointed out that in determining finality the most important considerations are the "inconvenience and cost of piecemeal review on the one hand and the danger of denying justice on the other." *Gillespie* at 153. *See also Di Bella v. United States*, 369 U.S. 121 (1962) (recognizing exceptions to general principle of finality).

The purpose of the finality rule is to promote efficiency and prevent piecemeal review. *See United States v. Columbia Broadcasting System*, 666 F.2d 364 (9th Cir. 1982). *Cohen* states that the purpose of the finality rule "is to combine in one review all stages of the proceeding that effectively may be reviewed and corrected if and when final judgment results." *Cohen* at 546.

This Court and the federal circuit courts are understandably concerned with maintaining efficiency in the court system. However, efficiency will not be lost or in the least frustrated by MDK's appeal. Because Mike's Subpoenas issued from the Middle District of North Carolina, where MDK is a resident, MDK's appeal from the District Court Orders must be heard in the Fourth Circuit. MDK is not a party to the Michigan Litigation and, therefore, will have no right of appeal from a final order in that court. Thus, MDK's appeal will, in any event, be reviewed separately in the Fourth Circuit. While efficiency will not be lost if the appeal is heard now, MDK stands to lose its trade secrets if the appeal is not heard now.

The Supreme Court in *Cohen, Columbia* and subsequent decisions, has held that the purpose of the finality rule must be weighed against the potential harm to the

appellant if the appeal is dismissed. Here, the balance clearly weighs in favor of allowing MDK's appeal. The Fourth Circuit failed to apply or even consider this standard as established by this Court in *Cohen* and *Columbia*. The Fourth Circuit's decision in *MDK v. Mike's* allows for no exceptions to the finality rule for discovery orders. The only avenue of appeal from a discovery order recognized by the Fourth Circuit is from an order of contempt. This standard is in direct conflict with the standard established by this Court.

II. THE DECISION OF THE FOURTH CIRCUIT IS IN CONFLICT WITH THE DECISIONS OF SEVEN OTHER CIRCUITS

Seven other circuits following *Cohen* have recognized specific exceptions to the finality rule under the same or similar circumstances as are present here. These exceptions, including the exception for trade secrets, are based on the collateral order doctrine as established by *Cohen*. They are not separate and distinct bases for relief from the finality rule, as the Fourth Circuit has incorrectly stated. This misstatement or misinterpretation of a material point of law by the Fourth Circuit in and of itself warrants a review by this Court.

The Fourth Circuit misinterpreted MDK's argument on the appealability issue, stating:

> MDK nonetheless contends that the discovery ruling here is reviewable and advances two bases for appellate jurisdiction. First, MDK argues that because Mike's seeks discovery of MDK's trade secrets, a review of the discovery decision is proper at this time. Second, MDK maintains that the district court's decision constitutes a collateral order reviewable under the doctrine enunciated in *Cohen v. Beneficial Industrial Loan Corp.*, 337 U.S. 541 (1949). We hold that neither of these rationales confer jurisdiction upon this court to review the order below.

(Appendix, p. 5a.)

MDK does not advance two bases for appellate jurisdiction. MDK's position is that this Court recognized in *Cohen* there must be exceptions allowed to the harsh finality rule established in *Alexander*, and that the decisions of the circuit courts recognizing exceptions to the finality rule are not separate and distinct from *Cohen*, but rather, are interpretations and applications established by the standard established by this Court in *Cohen*.

The Third, Fifth, Sixth, Seventh, Ninth, Tenth, and District of Columbia Circuits have applied *Cohen* in recognizing exceptions to the finality rule for orders compelling the production of trade secrets from non-parties and in other similar circumstances.

The leading case recognizing a specific exception for trade secrets is the Tenth Circuit's decision in *Covey Oil Company v. Continental Oil Company*, 340 F.2d 993 (10th Cir. 1965). Following this Court's reasoning in *Cohen*, the Tenth Circuit found that questions of appealability must be decided on the particular facts of each case and not by an inflexible rule such as in *Alexander*. *Id.* Applying this reasoning, the Tenth Circuit recognized an exception to the finality rule for decisions compelling the production of trade secrets. *Id.* Despite the Fourth Circuit's questioning of the *Covey* decision in *MDK v. Mikes'*, *Covey* has not been reversed or overruled and continues to be followed in the Tenth Circuit, as well as several other circuits.

In *Covey*, the information sought, by way of a subpoena *duces tecum*, was from non-party independent oil marketers and sought the production of documents showing their purchase price of gasoline, sale prices, quantities sold, and the number and location of their service stations. *Id.* at 995. The underlying litigation involved an action against several major oil companies for alleged violations of anti-trust laws, restraint of trade, monopoly, price fixing and suppression of competition. The non-party appellants sought to quash the subpoenas on the grounds that

the information sought constituted trade secrets. As in *MDK v. Mike's*, the district court in *Covey* attempted to mitigate the potential harm by imposing a confidentiality order, making the documents available only to counsel and independent experts and forbidding the use of the material for business or competitive purposes. *Id.* at 998. In *Covey*, the grounds for the appeal were that (1) if the appellants were forced to disclose their confidential, commercial information and trade secrets, they would suffer irreparable harm, (2) postponement of review might destroy the claimed right and (3) as non-parties, they would have no right of appeal from the judgment therein. *Id.* at 996. The Tenth Circuit allowed the appeal holding that the appellants' claims were severable from the main action and the practical effect of the order would be irreparable by any subsequent appeal.

Precisely the same grounds for appeal are present here. First, the information sought is, without question, MDK's confidential, commercial information and trade secrets. In fact, exactly the same information sought in *Covey* is sought here. Disclosure of this information may irreparably harm MDK.

Second, MDK's claim is clearly severable from the issue in the main action (i.e., the relevance of MDK's information to Mike's claim against Lionel), and, as in *Covey*, the practical effect of the District Court Order will be irreparable by any subsequent appeal. Once MDK's trade secrets have been disclosed, the appeal will be moot and the harm will have been done.

Third, MDK is not a party to the Michigan Litigation and, therefore, will have no right to appeal from the final judgment in there. MDK's only avenue of appeal is to this Court.

The Fourth Circuit in *MDK v. Mike's* states that "subsequent events [to *Covey*] have undermined that ruling, and the Tenth Circuit itself recognizes that the 'Supreme Court has indirectly overruled the *Covey* exception mak-

ing it no longer viable.' " (Appendix, at 5a, citing *FTC v. Alaska Land Leasing, Inc.*, 778 F.2d 577, 578 (10th Cir. 1985) and *United States v. Ryan*, 402 U.S. 530 (1971).) This is an incorrect interpretation of *FTC* and *Ryan*. *FTC* states that this Court's decision in *Ryan* when coupled with its decision in *Alexander* indirectly overrules *Covey*. However, this Court in *Cohen* re-examined its holding in *Alexander* and specifically recognized exceptions to the finality rule. Additionally, *Ryan* is not applicable to the facts in *Covey* nor is it applicable to the facts at hand.

In *Ryan* the appellant objected to the production of documents pursuant to a Grand Jury subpoena on the grounds that the subpoena was unduly burdensome. The information sought was not trade secrets nor was it confidential. This Court in *Ryan* specifically stated that "[o]nly in the limited class of cases where denial of immediate review would render impossible any review whatsoever of an individual's claim that we allowed exceptions to the principal [finality rule]." *Ryan*, 402 U.S. at 533. It is clear that this Court denied the appeal in *Ryan* solely for the reason that the appellate's claim did not fall within one of the recognized exceptions, such as discovery of trade secrets. *Id.*

Indeed, in several instances subsequent to this Court's decision in *Ryan* the Tenth Circuit has specifically cited and followed *Covey* for the proposition that an exception to the general rule exists where an order is collateral, fairly separable from the main litigation, and relates to a non-party who shows irreparable injury.[9]

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[9] *Arthur Anderson v. Finesilver*, 546 F.2d 338 (1977). *See also Gaines v. Davis*, 928 F.2d 705 (1991) (holding that immediate appeal may be taken from a limited class of interlocutory orders which "finally determine claims of rights separable from, and collateral to, the rights asserted in the action, too important to be denied review and too independent of the cause itself to require that appellate consideration be deferred until the whole case is adjudicated' "); *Southern Methodist University Association v. Jaf-*

The Tenth Circuit would not continue to cite and follow *Covey* if *Ryan* had overruled it. However, if this Court in *Ryan* did in fact intend to overrule *Covey*, that fact is obviously not clear to the circuit courts, which continue to cite and rely on *Covey*. Clarification of this Court's reasoning in *Ryan* is appropriate in light of the conflict and confusion between the circuits.

The Third Circuit, in *Smith v. Bic Corporation*, 869 F.2d 194 (3rd Cir. 1989), has recently addressed the issue of the appealability of an order compelling production of trade secrets. Significantly, *Bic*, which recognized an exception to the finality rule for discovery orders compelling production of trade secrets, was decided after both *Ryan* and *FTC*.

In *Bic*, the appellant sought an appeal from an order compelling production of its trade secrets. *Bic*, at 94-195. The Third Circuit followed the analysis set forth in *Cohen* and *Covey* holding that

> 1) the denial of Bic's motion for protective order 'conclusively determines' that Bic must disclose its design, safety test, and other accident or complaint information to Smith without any choice as to how the information will be disseminated; 2) the denial resolves issues totally separate from the merits of the case since we can evaluate whether or not a design is a trade secret without reaching the merits of whether or not it is a design defect; and 3) the order will be 'effectively unreviewable' after judgment because once trade secrets are made public, they can obviously never be 'secrets' again. We conclude that

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fee, 599 F.2d 707 (5th Cir. 1979) (allowing an appeal from a court order requiring the disclosure of the identities of anonymous lawyers where the court found that postponement of review until final judgment would risk irreparable injury to the rights of the appellant); and *Centurion Industries v. Warren Steurer & Associates*, 665 F.2d 323 (10th Cir. 1981) (holding that the Fourth Circuit has jurisdiction to hear an appeal from an order compelling the production of trade secrets).

> we have jurisdiction to hear Bic's appeal from the District Court's denial of its motion for protective order. *Id.* at 198-199 (emphasis added).

The same rationale is applicable here: (1) the District Court Order denying MDK's motion for protective order and requiring production of its trade secrets conclusively determined MDK's rights; (2) the District Court Order resolves issues totally separate from the merits of the Michigan Litigation since an appeal of the discovery order could determine whether or not information sought is a trade secret without reaching the merits of whether it is relevant to the issues in the Michigan Litigation; and (3) the District Court Order will be effectively unreviewable after judgment in the Michigan Litigation because, once MDK's trade secrets are disclosed, MDK's appeal will be moot and the harm will be done.

The Fourth Circuit declined to rely on *Bic,* citing *Texaco, Inc. v. Louisiana Land and Exploration Co.,* 995 F.2d 43 (5th Cir. 1993) for the proposition that *Bic* runs contrary to the law of most other circuits. This is not the holding in *Texaco.* On the contrary, *Texaco* cites the Third Circuit's holding in *Bic,* allowing an exception to the finality rule, and several other circuits as support for allowing the "governmental privilege" exception to the finality rule.

Furthermore, *Bic* has not been reversed or overruled within the Third Circuit or by this Court. Thus, the Fourth Circuit's statement with respect to the conflicts between the circuits simply underscores the need for a final review and determination of the issue by this Court.

In *Caswell v. Manhattan Fire,* 339 F.2d 417 (5th Cir. 1968), the Fifth Circuit followed the *Cohen* holding that "a non-party may appeal an order denying his motion to quash when under the circumstances he would be otherwise denied an effective mode of review." Similarly, in *21 Turtle Creek Square, Ltd. v. New York State Teachers' Retirement System,* 404 F.2d 31 (5th Cir. 1968),

the Fifth Circuit, again following *Cohen*, held that orders which determine substantial rights of the parties which, if not promptly reviewed, will subject the appealing party to irreparable harm are final and appealable. These decisions by the Fifth Circuit have been neither reversed nor overruled in the Fifth Circuit or by this Court.

The Circuit Court of Appeals for the District of Columbia, and the Sixth, Seventh and Ninth Circuits have also allowed appeals from discovery orders. *See e.g., AT&T v. Grady*, 594 F.2d 594 (7th Cir. 1978) (following *Covey* in allowing an appeal from an order compelling the production of documents from a non-party); *Ochsner v. Millis*, 382 F.2d 618 (6th Cir 1967) (allowing an appeal from a discovery order denying discovery); *Premium Service Corp. v. Sperry & Hutchinson Company*, 511 F.2d 225 (9th Cir. 1975) (allowing an appeal from a discovery order compelling production of documents from a non-party); *In Re Rafferty*, 864 F.2d 151 (D.C. Cir. 1988); *United States v. American Telephone & Telegraph Company*, 642 F.2d 1285 (D.C. Cir. 1980); and *United States v. Columbia Broadcasting System*, 666 F.2d 364 (9th Cir. 1982) (applying *Cohen* in holding that an order denying a non-party witnesses' motion for reimbursement of costs incurred in supplying subpoenaed documents in an anti-trust case fell within the collateral order doctrine of *Cohen* and was, therefore, appealable.

Review by this Court is necessary to resolve the conflict between the circuits.

III. THE DECISION OF THE FOURTH CIRCUIT IN *MIKE'S v. MDK* CONFLICTS WITH PRIOR DECISIONS IN THE FOURTH CIRCUIT

Prior to its holding in *MDK v. Mike's*, the Fourth Circuit adopted and followed both *Cohen* and *Covey*. In *North Carolina Association of Black Lawyers v. North Carolina Board of Law Examiners*, 538 F.2d 547, 549 (4th Cir. 1976) the Fourth Circuit recognized the *Covey* exception and stated with approval that "[t]he right to

appeal was accorded [in *Covey*] because the ordered discovery might have divulged trade secrets, and this result would have been fatal to the interests of the discovered witnesses, non-parties to the litigation and without other safeguard." There, the Fourth Circuit declined to apply *Covey* because the discovery sought did not constitute trade secrets, nor confidential information. *Id.* Significantly, *North Carolina Association of Black Lawyers* was decided by the Fourth Circuit after *Ryan*, which the Fourth Circuit now cites as having overruled *Covey*.

The Fourth Circuit in the case at hand should have followed the *Covey* exception as recognized by it in *North Carolina Association of Black Lawyers.* However, it failed to do so and failed to even cite or refer to its opinion in *North Carolina Association of Black Lawyers.*

Additionally, the decision in *MDK v. Mike's* conflicts with the Fourth Circuit's previous decision denying Mike's Motion to Dismiss or Quash the Appeal and allowing the appeal to proceed on its merits. MDK respectfully contends that there apparently is confusion between the Judges currently sitting in the Fourth Circuit as to the applicable standard as established by this Court. The first decision denying the Motion to Dismiss or Quash the Appeal was "entered at the direction of Judge Sprouse, with the concurrence of Judge Hall and Judge Wilkinson." (Appendix, p. 16a.) The opinion in *MDK v. Mike's*, dismissing the appeal, was written by Judge Wilkinson, in which Judge Russell and Judge Hamilton joined.

A review by this Court is necessary to secure and maintain the uniformity of decisions within the Fourth Circuit.

CONCLUSION

This Court clearly recognizes exceptions to the finality requirement set forth in 28 U.S.C. § 1291. A majority of the federal circuit courts, including the Fourth Circuit, have specifically recognized an exception for an order compelling trade secrets from a non-party.

It is undisputed that the information sought from MDK constitutes MDK's confidential, commercial information and trade secrets. The District Court Order is, without question, final under the *Cohen* requirements for finality and should come within the recognized exception for discovery orders compelling the production of trade secrets. MDK will suffer irreparable harm if its appeal is dismissed and MDK will have no other right to a review of the District Court Order.

For the foregoing reasons, MDK respectfully requests that the Petition for Writ of Certiorari be granted.

Respectfully submitted,

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Dated: September 20, 1994

APPENDIX

UNITED STATES COURT OF APPEALS
FOR THE FOURTH CIRCUIT

No. 93-2230

MDK, INCORPORATED,
Appellant,

v.

MIKE'S TRAIN HOUSE, INCORPORATED,
a Maryland Corporation,
Plaintiff-Appellee,

LIONEL TRAINS, INCORPORATED,
a Michigan Corporation,
Defendant-Appellee.

Appeal from the United States District Court
for the Middle District of North Carolina, at Greensboro
Richard C. Erwin, Senior District Judge
(CA-92-48-2-MC)

Argued: April 13, 1994

Decided: June 22, 1994

Before RUSSELL, WILKINSON, and HAMILTON, Circuit Judges.

OPINION

WILKINSON, Circuit Judge:

The question before us is whether this court has jurisdiction to review a district court decision compelling a company to submit to discovery where it is not a party

to the underlying litigation. Because we find that this nonfinal discovery order does not fall under the collateral order exception of *Cohen v. Beneficial Industrial Loan Corp.*, 337 U.S. 541 (1949), we dismiss the appeal for want of jurisdiction.

I.

This appeal traces its origins to a lawsuit filed in Michigan federal court. *See Mike's Train House, Inc. v. Lionel Trains, Inc.*, No. CA 93-60138 (E.D. Mich.). The Michigan litigation involves antitrust allegations in the model trains market. These trains come in a variety of sizes, or "gauges," including O gauge, HO gauge, and N gauge. Both parties to the Michigan litigation manufacture O gauge trains and related products, and the plaintiff in that case, Mike's Train House, is a former distributor for the defendant, Lionel Trains, Inc. Mike's alleges that when it decided to begin manufacturing O gauge trains on its own, Lionel sought an agreement with Mike's to restrict output. Mike's further alleges that its refusal to agree to those output restrictions led Lionel to terminate the distributorship. Mike's maintains that these actions constitute a misuse of monopoly power in violation of section two of the Sherman Act. *See* 15 U.S.C. § 2.

In response, Lionel contends that it is not a monopolist because its share of the total train market—which includes all gauges—is too small. Mike's, however, has contested Lionel's broad view of the market. It has attempted to prove that O gauge products constitute the relevant market and that Lionel monopolizes that market. To support this contention, Mike's has sought information from other model train manufacturers. The information was through subpoenas requesting business records regarding (1) annual sales revenues, (2) total annual revenue on a product by product basis, and (3) the costs of goods sold.

One of these subpoenas was served on MDK, Inc., a North Carolina manufacturer of O gauge products. MDK,

arguing that the subpoena sought confidential commercial information and trade secrets, filed a motion in North Carolina federal district court to quash the subpoena.[1] A hearing on MDK's motion was held before a magistrate judge in July 1993. The magistrate determined that Mike's was acting in good faith in seeking information from MDK. The magistrate further determined that Mike's had a critical need for the information because it would be used to determine the relevant market and the presence of monopoly power. The magistrate therefore concluded that the subpoena could be enforced and ordered the parties to negotiate an appropriate confidentiality order to safeguard the information subject to discovery. The magistrate also ordered Mike's to reimburse MDK for the costs it would incur in complying with the subpoena. This decision was subsequently upheld by the district court, and the parties proceeded to discuss the scope of the confidentiality order. MDK now appeals, claiming the rulings below inappropriately subject its vital business information to discovery.

II.

As a threshold matter, we must determine whether this court has jurisdiction to review the decision below. Circuit courts may hear "appeals from all final decisions of the district courts of the United States." 28 U.S.C. § 1291. This finality requirement is a "historic characteristic of federal appellate procedure," *Cobbledick v. United States*, 309 U.S. 323, 324 (1940), that advances the important interest of avoiding piecemeal review of ongoing district court proceedings. *United States v. Nixon*, 418 U.S. 683, 690 (1974). Such piecemeal review would not only delay the ultimate resolution of disputes by

[1] The original motion requested that a subpoena by Lionel seeking information from MDK be quashed as well. However, the scope of that subpoena has apparently been narrowed to the point where it is moot as far as MDK is concerned. The only issue before us, therefore, is Mike's discovery request.

spawning multiple appeals, *see Firestone Tire & Rubber Co. v. Risjord*, 449 U.S. 368, 374 (1981), it would also "undermine the independence of the district judge" in conducing court proceedings, *id.* The rule against appeal of interlocutory rulings thus serves twin purposes. It both avoids the "enfeebling [of] judicial administration" that comes with undue delay, *Cobbledick*, 309 U.S. at 325, and preserves the primacy of the district court as the arbiter of the proceedings before it, *see Firestone*, 449 U.S. at 374.

Consequently, appellate review will generally be limited to those decisions "which end[] the litigation on the merits and leave[] nothing for the court to do but execute the judgment." *Catlin v. United States*, 324 U.S. 229, 233 (1945); *see Miller v. Simmons*, 814 F.2d 962, 964 (4th Cir. 1987). Discovery orders generally do not meet this requirement. *Church of Scientology v. United States*, 113 S. Ct. 447, 452 n.11 (1992); *Barrick Group, Inc. v. Mosse*, 849 F.2d 70, 72 (2d Cir. 1988). Such orders "typically bespeak their own interlocutory character; they are necessarily only a stage in the litigation and almost invariably involve no determination of the substantive rights involved in the action." *United States v. Sciarra*, 851 F.2d 621, 627-28 (3d Cir. 1988). Indeed, the considerations underlying the rule against review of interlocutory orders apply with particular force in the discovery context because that process has a special potential for spawning rulings that aggrieved parties would seek to appeal. The process of turning over private—and often damaging—information to an adversary inevitably creates friction. The sheer number of discovery rulings and the myriad procedural requirements governing them, *see* Fed. R. Civ. P. 26-37, provide fertile soil for the growth of appealable orders. Allowing immediate appeal of the orders resolving discovery disputes would only disrupt and delay district court proceedings and clog the courts of appeals with matters more properly managed by trial courts familiar with the parties and their controversy. *See*

In re Insurers Syndicate for Joint Underwriting, 864 F.2d 208, 210-11 (1st Cir. 1988).

III.

MDK nonetheless contends that the discovery ruling here is reviewable and advances two bases for appellate jurisdiction. First, MDK argues that because Mike's seeks discovery of MDK's trade secrets, review of the discovery decision is proper at this time. Second, MDK maintains that the district court's decision constitutes a collateral order reviewable under the doctrine enunciated in *Cohen v. Beneficial Industrial Loan Corp.*, 337 U.S. 541 (1949). We hold that neither of these rationales confer jurisdiction upon this court to review the order below.

A.

MDK's position that orders mandating the discovery of trade secrets are appealable relies on the Tenth Circuit's holding in *Covey Oil v. Continental Oil Co.*, 340 F.2d 993 (10th Cir. 1965). However, subsequent events have undermined that ruling, and the Tenth Circuit itself recognizes that "the Supreme Court has indirectly overruled the *Covey* exception making it no longer viable." *FTC v. Alaska Land Leasing, Inc.*, 778 F.2d 577, 578 (10th Cir. 1985) (discussing *United Sttaes v. Ryan*, 402 U.S. 530 (1971)).[2] The dangers of a trade secrets exception to the nonappealability of discovery orders should be apparent. A judicially created exception to nonappealability

[2] For similar reasons we decline to rely on the Third Circuit's case, *Smith v. Bic Corp.*, 869 F.2d 194 (3d Cir. 1989). Like *Covey*, that case creates an exception to the general rule that discovery orders are not appealable by allowing review of a district court's refusal to grant a protective order restricting dissemination of trade secrets. *See Bic*, 869 F.2d at 198-99. However, as the Fifth Circuit noted, *Bic* runs contrary to the law of most other circuits, *see Texaco Inc. v. Louisiana Land & Exploration Co.*, 995 F.2d 43, 44 n.4 (5th Cir. 1993) (collecting cases), and we do not follow it here.

for categories of sensitive information is the quintessential slippery slope. Many parties faced with discovery requests are apt to regard the information sought as sensitive or confidential and seek, at a minimum, to delay its disclosure through an interlocutory trip to an appellate court. In addition, trade secrets have widely been held to be discoverable upon appropriate findings and with an appropriate protective order, *see Federal Open Mkt. Comm. v. Merrill*, 443 U.S. 340, 362 (1979) (noting that there is no absolute privilege protecting trade secrets from discovery); *National Util. Serv., Inc. v. Northwestern Steel & Wire Co.*, 426 F.2d 222, 227 (7th Cir. 1970) (same); *Duplan Corp. v. Deering Milliken, Inc.*, 397 F. Supp. 1146, 1185 (D.S.C. 1974) (same); 3 Roger M. Milgrim, *Milgrim on Trade Secrets* § 14.02 [1][a] (1993) (same), and we see no reason to overturn the general rule of nonappealability with respect to them.

B.

We are similarly unpersuaded that jurisdiction over this appeal is conferred by the collateral order doctrine of *Cohen v. Beneficial Industrial Loan Corp.*, 337 U.S. 541 (1949). *Cohen* recognized that a "small class" of "collateral" decisions may require review even where they do not conclude the litigation in question. *Cohen*, 337 U.S. at 546. In this circuit, an order will fall within this limited exception only if the "order conclusively determines the question in the trial court, resolves an important question independent of the subject matter of the litigation, is effectively unreviewable on appeal from a final judgment or so important that review should not wait upon final judgment, and presents a serious and unsettled question upon appeal." *Bever v. Gilbertson*, 724 F.2d 1083, 1085 (4th Cir. 1984); *see also Coopers & Lybrand v. Livesay*, 437 U.S. 463, 468 (1978). MDK claims that the district court's order meets the requirements of *Cohen* because it concludes the question of whether MDK will be forced to submit to discovery, and

because once that discovery takes place, it will be too late for MDK to protect its information.

Such claims have rarely proved convincing, however, and courts have rather routinely declined to extend the collateral order doctrine to discovery rulings. *See In re Insurers Syndicate*, 864 F.2d at 210; *Bever*, 724 F.2d at 1087; *see also M.A. Mortenson Co. v. United States*, 877 F.2d 50, 51-52 (Fed. Cir. 1989) (holding orders imposing certain noncontempt discovery sanctions nonreviewable under *Cohen*); *In re Underwriters at Lloyd's*, 666 F.2d 55, 58 (4th Cir. 1981) (same). We recognize, of course, that this case does not present the routine discovery dispute between two parties to a court proceeding. Despite the fact that MDK is not a party to the Michigan litigation, a North Carolina federal court has ordered it to turn over certain private business information to a competitor engaged in that litigation. We note also that some courts have found jurisdiction to review district court orders *quashing* subpoenas that sought discovery from nonparties where the district court issuing the order was in a circuit different from the one where the underlying action was taking place. *See Periodical Publishers Serv. Bur., Inc. v. Keys*, 981 F.2d 215, 217-18 (5th Cir. 1993); *Hooker v. Continental Life Ins. Co.*, 965 F.2d 903, 904-05 (10th Cir. 1992); *Barrick*, 849 F.2d at 72-74 (2d Cir.); *In re Subpoena Served on the Cal. PUC*, 813 F.2d 1473, 1474-80 (9th Cri. 1987).[3]

We do not believe, however, that these factors support application of the collateral order doctrine to discovery disputes such as this one. Whatever the propriety of allowing immediate review of orders quashing subpoenas seeking discovery from nonparties, that exception plainly

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[3] A few courts have also allowed appeal even where the underlying case and the discovery order arose in the same circuit. *See Heat & Control, Inc. v. Hester Indus., Inc.*, 785 F.2d 1017, 1020-22 (Fed. Cir. 1986); *Ariel v. Jones*, 693 F.2d 1058, 1059 (11th Cir. 1982).

does not apply here as a denial of discovery is not involved. Furthermore, MDK's position as a nonparty does not automatically mean that this controversy constitutes an independent question under *Cohen*. While the district court's order compelling discovery may seem a self-contained piece of litigation when viewed in isolation, that view fails to capture the full scope of these proceedings. The discovery order in question is but one of several discovery requests Mike's has made in order to secure the information necessary to prosecute its claim of monopolization against Lionel. Resolving the issue of whether Mike's will be able to secure this information from MDK perforce impacts the manner in which the Michigan trial will be conducted. Likewise, the time required to resolve an appeal of the North Carolina decision can only delay resolution of the Michigan litigation. Thus, this appeal cannot be considered apart from the course of the main litigation, a necessary prerequisite for application of the collateral order doctrine. *See Cohen*, 337 U.S. at 546-47.

The order at issue here also fails to fulfill the *Cohen* requirement that review be unavailable. While it may be the case that the discovery order could not be effectively reviewed after the conclusion of the Michigan litigation, because MDK is not a party to that litigation and because discovery will have already occurred, that determination does not end our inquiry. The collateral order doctrine's concern with appealability is not simply a narrow concern about the availability of appeal upon final judgment. Rather, the doctrine addresses the worry that an aggrieved party will be denied review entirely. *See Firestone*, 449 U.S. at 376-77.

Here, MDK cannot claim that it could never obtain review absent the appeal at bar. Courts have long recognized that a party sufficiently exercised over a discovery order may resist that order, be cited for contempt, and then challenge the propriety of the discovery order in the course of appealing the contempt citation. *See Corpora-*

cion Insular de Seguros v. Garcia, 876 F.2d 254, 256-57 (1st Cir. 1989) (stating that a nonparty must refuse to comply with a discovery order and be held in contempt before an appeal may be heard); *In re Application of the Am. Tobacco Co.*, 866 F.2d 552, 554 (2d Cir. 1989) (same); *North Carolina Assoc. of Black Lawyers v. North Carolina Bd. of Law Examiners*, 538 F.2d 547, 549 (4th Cir. 1976) (same). Indeed, the Supreme Court has pointed to this path to appellate review as a reason why discovery orders are not appealable under *Cohen*. *Firestone*, 449 U.S. at 377. We recognize, of course, that the contempt route is a difficult path to appellate review, and one that may carry with it a significant penalty for failure. In discovery disputes, however, this difficulty is deliberate. As Judge Friendly has noted, the contempt limitation ensures that the aggrieved party will first take a careful "second look" at the issue in question to determine whether it truly warrants inviting a contempt citation. *National Super Spuds v. New York Mercantile Exch.*, 591 F.2d 174, 180 (2d Cir. 1979). Indeed, the discovery appeals that arise from that calculus will most likely be those of the greatest significance to both parties —the party resisting discovery must risk a citation for contempt, while the party seeking discovery must move for contempt and thereby risk an interlocutory appeal. *Id.* The alternative to the contempt route, by contrast, is one that encourages appeal of every unpalatable discovery ruling.[4]

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[4] While we conclude that we would lack jurisdiction to review the discovery proceedings even if those proceedings had been terminated and the scope of discovery set, we must point out that, as of oral argument, the action below had yet to be concluded. There, both parties indicated that negotiations regarding the parameters of the protective order were not completed. We thus cannot even say that this case meets the collateral order doctrine's initial condition that the order below conclusively determine the question at issue. *See Gulfstream Aerospace Corp. v. Mayacamas Corp.*, 485 U.S. 271, 276-78 (1988). A merits review of this discovery issue, when it is uncertain what documents will be turned over and what

IV.

In declining jurisdiction over the controversy here, we follow a long line of cases holding that courts of appeals lack jurisdiction to review orders compelling discovery of nonparties. *See Cobbledick*, 309 U.S. at 326-30; *Alexander v. United States*, 201 U.S. 117, 120-22 (1906); *Garcia*, 876 F.2d at 256-58 (1st Cir.); *Estate of Domingo v. Republic of the Phil.*, 808 F.2d 1349, 1350-52 (9th Cir. 1987); *Alaska Land Leasing*, 778 F.2d at 578 (10th Cir.); *North Carolina Assoc. of Black Lawyers*, 538 F.2d at 548-49 (4th Cir.). Allowing nonparties to immediately appeal discovery decisions affecting them is a recipe for gridlock in the underlying litigation. As it is plain that this court lacks jurisdiction over this appeal, it is hereby

DISMISSED.

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protection those documents will be afforded under the confidentiality order, would also go against the long-settled practice that courts of appeals will not pass upon "hypothetical" cases. *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 241 (1937).

[Filed July 28, 1993]

IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF
NORTH CAROLINA
GREENSBORO DIVISION

2:93MC48

MIKE'S TRAIN HOUSE, INC.,
a Maryland corporation,
Plaintiff,

v.

LIONEL TRAINS, INC.,
a Michigan corporation,
Defendant.

ORDER

This matter comes before the court on motions filed by Mike's Train House and Lionel Trains to compel discovery under subpoenaes they served on non-party MDK, and on MDK's motion to quash the subpoenaes under Rule 45, Fed. R. Civ. P. The court heard the oral argument of counsel in the United States Courthouse in Greensboro on July 26. At the close of the hearing, the court entered the following directives, which it now commemorates by this written order.

MDK has been served with two subpoenas by Mike's Train House and one subpoena by Lionel Trains.[1] The subpoenaes call for the production of categories of docu-

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[1] Actually, one of the two subpoenaes directed by Mike's Train House to MDK was served upon "K-Line Manufacturing Co. by Maury Klein." At oral argument, all counsel recognized that this subpoena should have been directed to MDK, Inc. The court ruled upon the discovery issues that arise from the subpoena, although it also provided that Mike's Train House should re-serve the sub-

ments which, Mike's Train House and Lionel contend, are relevant and important to litigation that is pending in the Eastern District of Michigan. There, in a federal antitrust suit against Lionel, Mike's Train House has alleged that Lionel has abused its monopoly power, in violation of Section 2 of the Sherman Antitrust Act, with respect to its termination of Mike's Train House as its distributor. *See, Mike's Train House, Inc. v. Lionel Trains, Inc.*, No. CA 93-60138 (E.D. Mich). The plaintiff in that action alleges that the relevant market for purposes of the lawsuit is the "O-guage" toy train market. The defendant denies this definition of the relevant market, contending that all gauges of toy trains form a single, larger market. Non-party MDK is a manufacturer or seller in the O-guage market.

MDK has argued to this court that the three subpoenaes should be quashed in their entirety because they invade highly confidential commercial information and would impose an undue burden on MDK. See Rule 45(c)(3)(B)(i). Mike's Train House and Lionel have contended, on the other hand, that a strict confidentiality order (attorneys and experts' "eyes only") can be fashioned and that the burdens of production on MDK are not as great as suggested by MDK and will, in any event, be paid for by the parties issuing the subpoenaes.

Upon hearing the argument of counsel, the court is satisfied that, in balancing the competing interests of the parties before the court, the subpoenaes (as now limited by the parties and as interpreted in open court) should be enforced, with appropriate safeguards and directives. In reaching this conclusion, the court has considered such factors as "the dangers of abuse, good faith, adequacy of protective measures, and the availability of other means of proof." *Centurion Indus. Inc. v. Warren Steurer and Assoc.*, 665 F.2d 323, 325 (10th Cir. 1981).

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poena on the correctly designated non-party (MDK) and should amend its description of the lawsuit mentioned in request number one of the subpoena.

Counsel for MDK does not suggest that Lionel or Mike's Train House are proceeding in bad faith, and the court finds no bad faith. The court finds no "dangers of abuse" in that the subpoena requests (as now limited by Lionel) are not overbroad, and a protective order will prevent disclosure of MDK's confidential information to employees of either Lionel or Mike's Train House or the general public. The court remains confident, as it advised counsel, that a strict protective order (more stringent even than that entered in the principal action) will protect MDK's business information. The court emphasized that the litigants will be given the first opportunity to fashion the terms of the order, guided by the court's explanation the it will require the strictest of orders, with redaction of all identification of MDK from documents produced, so that only outside counsel for Lionel and Mike's Train House know the source and identity of the documents.

Further, the court finds that Mike's Train House and Lionel have a critical litigation need for the documents in question. The documents are needed by Mike's Train House in order to permit its economists to determine the market shares in the O-guage market. As set out in the declaration of Dr. James Zinser (filed in the principal action), the MDK documents are needed (1) to perform a cross-elasticity of demand study, and (2) to compare Lionel's cost/price margins with those of other manufacturers and sellers. These lines of evidence are related to proving the relevant market and monopoly power. Lionel needs the documents it has subpoenaed in order to cross-examine MDK's president during his deposition. MDK has argued that Mike's Train House and Lionel should be required to gather this sort of information from other sources, but the court does not find that the existence of other reliable sources of information of the kind sought has been shown by MDK.

Accordingly, the court has ruled that the subpoenaes shall be enforced, with the following directives:

1. Lionel's requests are enforced only with respect to Request 4 and only insofar as that request is interpreted to call for existing studies, surveys, and reports, rather than underlying data that could simply be related in some way to the topics listed in Request 4.

2. The litigants before the court shall immediately begin work on the terms of a confidentiality agreement, to be structured in accordance with the guidelines announced in open court.

3. MDK shall immediately begin work on an estimate of the time and expense required to comply with the subpoenaes, and Lionel and Mike's Train House shall pay 75% of the estimated cost before the work is undertaken, with the remainder on completion.

4. Mike's Train House may issue a subpoena (in place of its first subpoena) correctly identifying MDK, Inc. as the party to be served and accurately identifying the prior litigation file it now seeks. Counsel for MDK may remove privileged material from the file.

MDK announced at hearing that it intends to object to this order. Time is of the essence in this matter since discovery in the principal action is limited to August 19 and trial is scheduled to begin after Labor Day. Accordingly, the court stayed production under this order pending objection, but instructed the parties to continue to work on the terms of a confidentiality order, the costs of production, and the dates of the MDK deposition so that compliance with the subpoenaes (as limited herein) can be accomplished immediately upon entry of any order affirming this order, assuming that objection under Rule 72(a) is in fact made.

IT IS SO ORDERED.

/s/ R. Trevor Sharp
R. TREVOR SHARP
July 28, 1993 U.S. Magistrate Judge

[Filed Aug. 17, 1993]

IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF
NORTH CAROLINA
GREENSBORO DIVISION

2:9MC48

MIKE'S TRAIN HOUSE, INC.,
a Maryland corporation,
Plaintiff,

v.

LIONEL TRAINS, INC.,
a Michigan corporation,
Defendant.

ORDER

On August 10, 1993, counsel for MDK, Inc. filed notice of appeal from the Magistrate Judge's Order entered July 28, 1993, ruling on Mike's Train House and Lionel Trains' motions to compel discovery under subpoenas they served on non-party MDK and MDK's motion to quash the subpoenaes under Rule 45, Fed. R. Civ. P.

The court finds that the Magistrate Judge's ruling is not clearly erroneous or contrary to law. *See* Fed. R. Civ. P. 72(a). Therefore, the court dispenses with oral argument and hereby AFFIRMS the subject order of the Magistrate Judge.

/s/ Richard C. Erwin
United States District Judge

August 17, 1993

[Filed November 17, 1993]

UNITED STATES COURT OF APPEALS
FOR THE FOURTH CIRCUIT

No. 93-2230
CA-93-48-2-MC

MDK, INCORPORATED,
Appellant

v.

MIKE'S TRAIN HOUSE, INCORPORATED,
a Maryland Corporation,
Plaintiff-Appellee

LIONEL TRAINS, INCORPORATED,
a Michigan Corporation,
Defendant-Appellee

ORDER

Appellant filed a motion for stay pursuant to Rule 8 of the Federal Rules of Appellate Procedure and the appellees responded. Appellee Mike's Train House filed a motion to dismiss appeal and the remaining parties responded.

The motion for stay and motion to dismiss are denied.

Entered at the direction of Judge Sprouse, with the concurrence of Judge Hall and Judge Wilkinson.

For the Court,

/s/ Bert M. Montague
Clerk

UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF NORTH CAROLINA

Case Number: 93-60138 AA

MIKE'S TRAIN HOUSE, INC.,
Plaintiff,

v.

LIONEL TRAINS, INC.,
Defendant.

HON. GEORGE LA PLATA
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

TO: MDK, Inc. and Murray Klein
Route No. 3, Dodsons Cross Roads
Hillsborough, NC 27278

SUBPOENA IN A CIVIL CASE

☒ YOU ARE COMMANDED to appear at the place, date, and time specified below to testify at the taking of a deposition in the above case.

Place of Deposition CLARK WHARTON & BERRY, 600 Dixie Building, 125 S. Elm Street, Greensboro, NC 27402

Date and Time October 13, 1993, 10:00 a.m.

☒ YOU ARE COMMANDED to produce and permit inspection and copying of the following documents or objects at the place, date, and time specified below (list documents or objects):

Documents identified on Exhibit A hereto.

Place of Deposition CLARK WHARTON & BERRY, 600 Dixie Building, 125 S. Elm Street, Greensboro, NC 27402

Date and Time October 13, 1993, 10:00 a.m.

Any organization not a party to this suit that is subpoenaed for the taking of a deposition shall designate one or more officers, directors, or managing agents, or other persons who consent to testify on its behalf, and may set forth, for each person designated, the matters on which the person will testify. Federal Rules of Civil Procedure, 30(b)(6).

Issuing Officer Signature and Title (Indicate if Attorney for Plaintiff or Defendant)

/s/ Robert J. LaRocca Date October 1, 1993
Attorney for Plaintiff

Issuing Officers Name, Address and Phone Number

Robert J. LaRocca, KOHN, NAST & GRAF, P.C., 1101 Market St., 24th Floor, Philadelphia, PA 19107 (215) 238-1700

EXHIBIT A TO DEPOSITION SUBPOENA OF MDK, INC. AND MURRAY KLEIN

1. The complaint and all deposition transcripts and exhibits thereto in the litigation *MDK v. General Mills, et al.*, C-79-611 D (M.D. North Carolina).

2. Documents setting forth MDK (and K-Line's) yearly sales of O gauge train products (including O-27) for each year 1986 through and including the present.

3. The revenue received by MDK and/or K-Line on a yearly basis and on a product-by-product basis for selling each MDK or K-Line product that is in the following classes or categories of model trains or train equipment for years 1986-1992:

A. Steam engines

B. Diesel engines

C. Passenger cars

D. Freight cars

E. Train sets

F. Train tracks (straight and curved)

4. The invoice cost of each product in paragraph (3) above.

5. All MDK and K-Line price lists for years 1986-92.

6. Product brochures for each product in ¶ 3 above.

Supreme Court, U.S.
FILED
OCT 26 1994
OFFICE OF THE CLERK

NO. 94-509

IN THE
SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1994

MDK, INCORPORATED,
Petitioner,

v.

MIKE'S TRAIN HOUSE, and LIONEL TRAINS, INC.,
Respondents.

Petition for Writ of Certiorari to the United States Court of Appeals for the Fourth Circuit

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BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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Dated: October 24, 1994

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COUNTERSTATEMENT OF THE CASE

The undersigned respondent, Mike's Train House, Inc. ("Mike's"), is a Maryland corporation, and is a former supplier of toy trains to Lionel Trains, Inc. ("Lionel") as well as a former distributor of Lionel trains. Lionel abruptly terminated its business relations with Mike's in violation of the federal antitrust laws, and particularly Section Two of the Sherman Antitrust Act involving monopolization. Lionel also committed breaches of contract and tortious interference with contractual relations. Mike's sued Lionel in the Federal District Court in Ann Arbor, Michigan, Lionel's home jurisdiction. That lawsuit is presently pending, and is set for trial beginning July 31, 1995.

In that lawsuit, Lionel has contested Mike's definition of the relevant product market. Lionel contends that the relevant market is all toy and scale model trains, of any gauge (such a N, Z, O, G, S, Standard gauge and HO),[1] and that therefore Lionel's market share is less than required for monopoly power. Mike's, in contrast, claims that the relevant product market is defined as the "O" gauge market (including "O-27"), in which Lionel clearly has monopoly power.

To gather empirical data to test these contentions, Mike's economists, including a Professor of Economics at Oberlin College, Dr. James Zinser and a Senior Economic

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[1]These refer to the widths of track. O gauge trains will not run on HO track, which is only one-half as wide, nor on N track, which is smaller still, and so forth. Trains made for each gauge will only operate on that particular gauge.

Counselor at DRI/McGraw Hill, Dr. Lawrence Chimerine, have sought to gather sales, pricing and cost data from various toy and scale model train manufacturers in the various gauges. This data will permit the economists to perform a "cross-elasticity of demand" study, which study is one of the tools used by economists to determine how the relevant product market should be defined.

Accordingly, Mike's served subpoenas under Fed.R.Civ.P. 45 upon a number of toy and model train manufacturers in the United States to gather the data to permit the independently retained economists to perform their statistical tests. In each case, Mike's promised the manufacturer strict confidentiality of the materials, by way of a confidentiality protective order under Fed.R.Civ.P. 26(c)(7) to restrict the data to the independent economists.

Many manufacturers voluntarily complied with the subpoenas, and, through their respective counsel, entered into confidentiality agreements whereby they provided the data. Several manufacturers in New Jersey challenged the subpoenas, but the Federal District Court in New Jersey overruled their objections and ordered the data produced, subject to confidentiality restrictions. The manufacturers then complied.

MDK, Inc. ("MDK"), the petitioner herein, is a toy train manufacturer located in North Carolina. It is an important manufacturer to the economists' study, because it competes with Lionel in the "O" gauge market.

In July 1993, Mike's subpoenaed MDK's data, by a subpoena properly served upon MDK in its place of business in North Carolina. MDK sought to quash the

subpoena. Magistrate Judge Trevor Sharp of the United States District Court for the Middle District of North Carolina, after an extensive oral argument, and consideration of the affidavit tendered by Dr. Zinser as to the need for the material, ordered on July 28, 1993 that MDK should produce the materials. He also ordered that MDK should be protected by a very strict confidentiality protective order, to protect against the public disclosure of MDK's business information. His opinion is set forth at 11a-14a. MDK lodged objections to this Order. United States District Judge Richard C. Erwin affirmed Magistrate Judge Sharp's Order on August 17, 1993.

MDK and Mike's continued to negotiate the terms of the confidentiality order, pursuant to Magistrate Judge Sharp's Order. Mike's and MDK have agreed to virtually all of the terms of that order.

MDK never refused to comply with Magistrate Judge Sharp's Order of July 28, 1993. It did not hold itself in contempt of either the Magistrate Judge's Order, nor the Order of affirmance by Judge Erwin.

Rather, it sought to appeal Judge Erwin's affirmance to the United States Court of Appeals for the Fourth Circuit. In an opinion decided June 22, 1994, the Fourth Circuit dismissed the appeal for lack of an appealable order. 1a-10a. It is that decision as to which MDK now seeks a Writ of Certiorari.

The Fourth Circuit held there was no appellate jurisdiction, following a long line of cases holding that courts of appeal lack jurisdiction to review orders compelling discovery of nonparties. 10a. The court was

unpersuaded that *Cohen v. Beneficial Industrial Loan Corp.*, 337 U.S. 541 (1949), and the collateral order doctrine set forth therein, conferred appellate jurisdiction in these circumstances. 6a. The Fourth Circuit held:

> Courts have long recognized that a party sufficiently exercised over a discovery order may resist that order, be cited for contempt, and then challenge the propriety of the discovery order in the course of appealing the contempt citation. (citations omitted).

8a. It is this well-reasoned determination as to which MDK seeks review by this Court.

SUMMARY OF ARGUMENT

MDK's Petition for Writ of Certiorari should be denied. MDK did not hold itself in contempt by refusing to comply with the subpoena when ordered to do so. The Fourth Circuit correctly held it did not have appellate jurisdiction.

ARGUMENT

What MDK is seeking by its Petition is to have this Court overrule its decision in *Alexander v. United States*, 201 U.S. 117 (1906). In that decision, this Court held that, where, as here, a third party such as MDK is ordered to produce documents under a subpoena, "the order to testify or to produce is not appealable as a final decision, but that if the witness refuses to obey the subpoena, an

order imposing a contempt penalty is appealable." 9 *Moore's Federal Practice*, ¶110.13[2], p. 123 (1994). *See also*, Wright, Miller & Cooper, *Federal Practice and Procedure: Jurisdiction 2d* §3914.24, p. 174 (1992) (the discovery ruling is not final if a plausible alternative is possible through disobedience and contempt). Here, MDK did not hold itself in contempt. Rather, it merely sought to appeal an unappealable order.

The Tenth Circuit briefly endorsed an exception to *Alexander* in circumstances where there was a "trade secret" nature to the materials sought. *Covey Oil Co. v. Continental Oil Co.*, 340 F.2d 993 (10th Cir.), *cert. denied*, 380 U.S. 964 (1965). However, the Tenth Circuit subsequently abandoned that decision:

> In *F.T.C. v. Alaska Land Leasing, Inc.*, 778 F.2d 577 (10th Cir. 1985), the Tenth Circuit read the Supreme Court's decision in *Ryan* as rejecting the basis for *Covey Oil*.

9 *Moore's Federal Practice* ¶110.13[2], p. 126 note 12.

Indeed, as stated in Wright, Miller & Cooper, "the general rule persists that appeal cannot be taken from an order granting discovery in an ancillary proceeding." Wright, Miller & Cooper, *Federal Practice and Procedure: Jurisdiction 2d* §3914.24, p. 174 and note 3 (citing *F.T.C. v. Alaska Land Leasing, Inc., supra*).

MDK now seeks to have this Court stand matters on its head, and declare *Covey Oil* to be the law of land, although no circuit has followed it, its own Tenth Circuit

has abandoned it, and it conflicts directly with *Alexander*. Moreover, adherence to *Covey Oil* would open the floodgates of federal jurisdiction, as every routine order to comply with a subpoena would become immediately appealable to every Court of Appeals.

Finally, what Mike's has subpoenaed from MDK are not "trade secrets." They are merely the routine business information that every company in the United States maintains as a matter of course: its sales, revenue, and costs of goods sold for certain past years. To be sure, MDK, as a private company, has a legitimate interest in maintaining the privacy of its records. No past, present, or future business plans are being sought. Rather, only historical information on sales, revenue and costs of toy trains are being sought.[2] Under the confidentiality protective order that has been substantially agreed to, (with the remaining limited areas of disagreement presently pending before Magistrate Judge Sharp for resolution), this data will be limited only to those persons who need to see it to do the economic studies: the outside, retained economists. These economists have no commercial or proprietary interest whatever in the information, and each has taken an affidavit guaranteeing to maintain the information in confidence.

Respectfully, the "conflict" posited by MDK in its petition is a chimera of its imagination. There is neither logic, nor law, in support of the proposition that this Court should depart from its long-standing rule of appealability to

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[2]MDK purchases its inventory from abroad, and therefore, need only show its invoice costs as to the cost component of the subpoena.

vastly expand federal appellate jurisdiction every time a business is subpoenaed to produce its records.

CONCLUSION

For all of the foregoing reasons, the Petition for Writ of Certiorari should be declined.

Respectfully submitted,

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